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MARKETING MARGINS for BEEF and PORK

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UNITED STATES DEPARTMENT OF AGRICULTURE

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MARKETING MARGINS FOR BEEF AND PORK 1/

Prices livestock producers received for beef cattle and hogs decreased sharply during 1955 and marketing margins for beef and pork rose substantially. 2/ During the first three quarters of 1956, prices received by producers recovered much of what they lost the year before and marketing charges declined. Prices of beef cattle declined in the final quarter of 1956 but the average was considerably higher than for the last quarter of 1955. Marketing margins for beef cattle and beef rose as producer prices fell. The fourth quarter average was about the same in 1956 as in 1955. Prices producers received for hogs held up well in the final quarter of 1956 and marketing margins did not increase significantly.

Beef

The annual average marketing margin for U. S. Choice grade beef changed little -- from 25.5 cents per retail pound in 1955 to 25.9 cents in 1956 (table 3), or the equivalent of about 19 cents per 100 pounds live weight basis. This was the smallest year-to-year increase recorded in the post-World War II period, during which margins increased in every year except 1949 and 1954.

Marketing margins for Choice grade beef rose steadily throughout 1955 to 27.8 cents in the fourth quarter. They dropped slightly in the first quarter of 1956 and continued to decrease in the second and third quarters. In the fourth quarter the average margin rose to 27.6 cents (preliminary estimate) -- about the same level as in the fourth quarter of 1955 -- and the average retail price reached the highest level during the last 2 years.

1/ Prepared by Victor B. Phillips, Agricultural Economist, Market. Res. Div., Agr. Market. Serv.

2/ The marketing margin is the difference between the price per pound the consumer pays for beef or pork at retail and the farm value or payment the farmer receives for an equivalent quantity of live animal. It is a return to marketing agencies for the distributing and processing services that are required to move live animals from the farm and to convert them to meat in the consumer's hands.

Table 3.- Beef (U. S. Choice grade): Retail price per pound, farm value, marketing margin, and farmer's share of the retail price, by quarters, 1955-56

Period	Retail price	Net farm value 1/	Marketing margin 2/	Farmer's share
	Cents	Cents	Cents	Percent
1955				
Jan.-Mar.	69.7	47.3	22.4	68
Apr.-June	67.8	42.3	25.5	62
July-Sept.	67.2	41.0	26.2	61
Oct.-Dec.	66.1	38.3	27.8	58
Average	67.7	42.2	25.5	62
1956				
Jan.-Mar.	62.1	34.7	27.4	56
Apr.-June	62.6	36.8	25.8	59
July-Sept.	68.5	45.5	23.0	66
Oct.-Dec. 3/	70.9	43.3	27.6	61
Average 3/	66.0	40.1	25.9	61

1/ Gross farm value of 2.16 pounds of Choice grade cattle less byproduct allowance. 2.16 pounds of Choice grade cattle yields 1 pound of beef at retail.

2/ The marketing margin is the difference between the retail price paid by the consumer and the farm value.

3/ Preliminary.

Trends in packer and retailer margins, the components of the marketing margin (fig. 1), were roughly parallel during 1955, when both increased sharply, but diverged in 1956. 3/ Retailer margins averaged about the same in 1956 as in 1955 while packer margins increased. Reduced retailer margins through September were primarily responsible for the continuous narrowing in overall marketing margins during the first three quarters of 1956.

Packer margins rose rapidly during the first three quarters of 1955 (table 4). They rose to a record level of $3.38 per 100 pounds live weight in the first quarter of 1956 and declined substantially to $2.49 in the second quarter, then increased to a record $3.59 in the third quarter followed by a drop in the fourth quarter.

3/ The packer margin, more specifically the live-to-wholesale margin, is the difference between the average public stockyard price per 100 pounds for Choice grade steers and the average value of 59 pounds of carcass beef plus the byproducts (heart, liver, tallow, hide, etc.).

The retailer margin, more specifically the wholesale-to-retail marketing margin, is the difference between the average wholesale carcass price per 100 pounds of U. S. Choice grade beef and tne value of 80 pounds of retail cuts. This margin covers the services retailers provide in fabricating carcasses into smaller cuts suitable for retail trade.

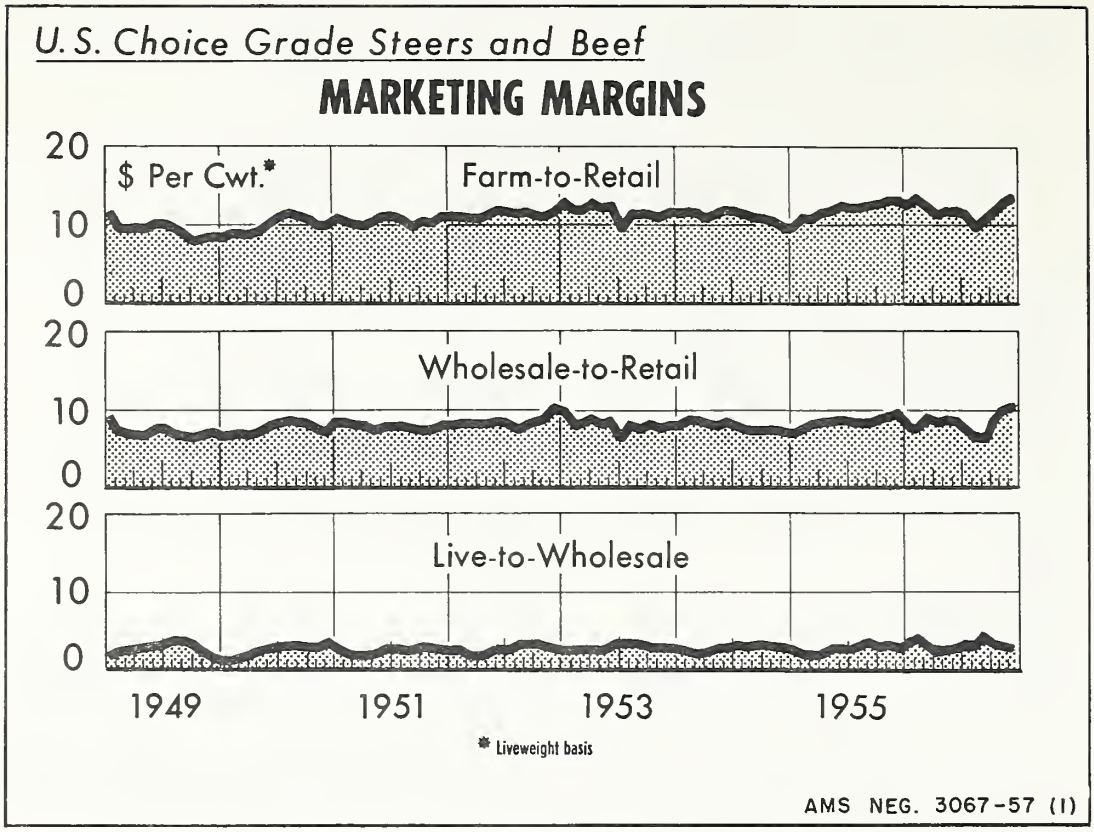

Figure 1

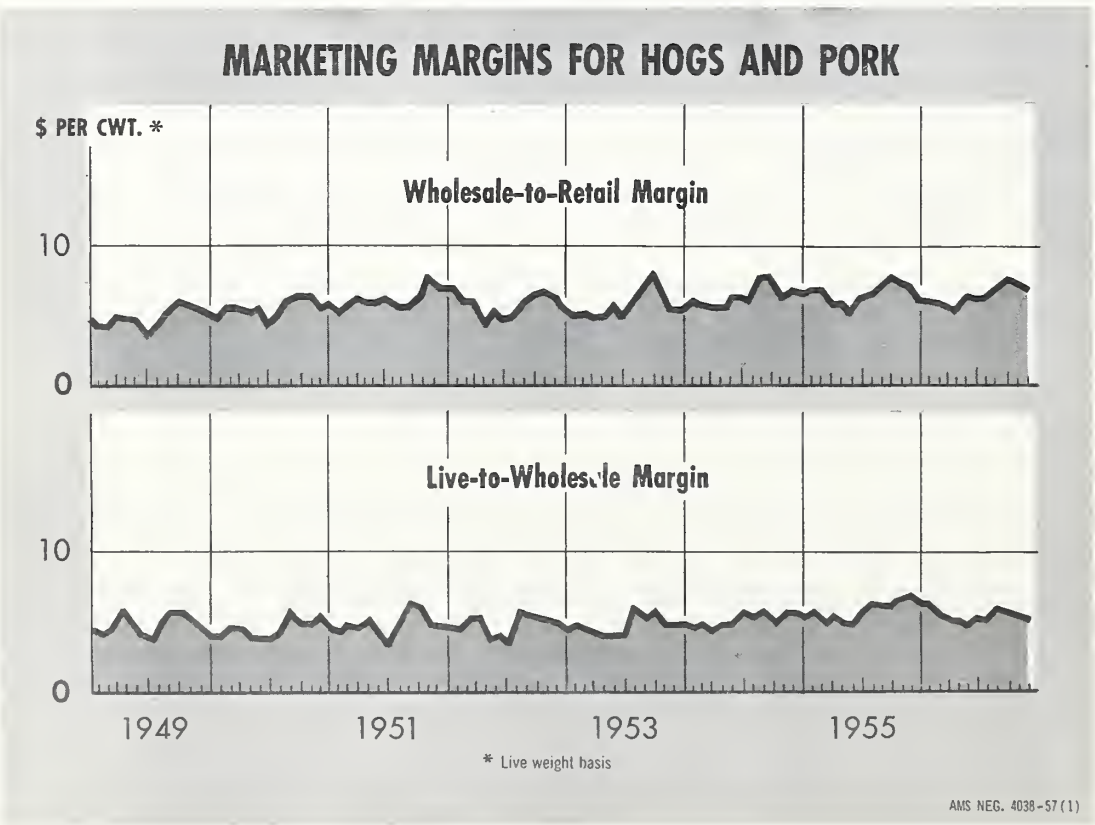

Figure 2

Table 4.- Beef (Choice grade): Live-to-wholesale and wholesale-to-retail margins, by quarters, 1955-56 1/

Quarter	Live-to-wholesale (per 100 pounds live weight)					Wholesale-to-retail (per 100 pounds carcass weight)		
	Price of steers 2/	Wholesale value			Margin	Wholesale price 4/	Retail value 5/	Margin
		Carcass 3/	Byproducts	Total				
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1955								
Jan.-Mar.	25.13	25.07	1.95	27.02	1.89	42.49	55.76	13.27
Apr.-June	23.02	23.39	1.92	25.31	2.29	39.65	54.24	14.59
July-Sept.	22.33	23.38	2.01	25.39	3.06	39.63	53.76	14.13
Oct.-Dec.	20.90	21.87	2.00	23.87	2.97	37.07	52.88	15.81
Average	22.84	23.43	1.97	25.40	2.56	39.71	54.16	14.45
1956								
Jan.-Mar.	19.47	21.02	1.83	22.85	3.38	35.62	49.68	14.06
Apr.-June	20.30	20.79	2.00	22.79	2.49	35.24	6/50.05	6/14.81
July-Sept.	23.76	25.21	2.14	27.35	3.59	42.73	54.80	12.07
Oct.-Dec. 7/	22.67	23.70	2.06	25.80	3.13	40.24	56.69	16.45
Average 7/	21.55	22.68	2.01	24.70	3.15	38.46	52.80	14.34

1/ Quarterly data for 1949-54 are published in "Beef Marketing Margins and Costs," U. S. Dept. Agr. Misc. Pub. 710, Feb. 1956, tables 1 and 3.
2/ Weighted average of price at 21 leading public stockyards.
3/ Wholesale carcass value is 59 percent of average wholesale price of 100 pounds of Choice grade carcass beef.
4/ Weighted average of prices of Choice grade carcass beef in New York, Chicago, Los Angeles, San Francisco, and Seattle.
5/ Calculated from average retail prices of beef cuts in urban areas, published by Bur. of Labor Statistics. The retail value per 100 pounds carcass weight is 80 percent of average retail cost of 100 pounds of retail cuts, because about 20 pounds of a 100-pound carcass is fat, bone, and trim which is sold by retailers at nominal prices.
6/ Revised.
7/ Preliminary.

Table 5.- Pork: Live-to-wholesale and wholesale-to-retail margins, by quarters, 1955-56 1/

Quarter	Live-to-wholesale (per 100 pounds live weight)			Wholesale-to-retail (per 100 pounds major cuts)		
	Price of hogs 2/	Wholesale value 3/	Margin	Wholesale value 4/	Retail value 5/	Margin
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1955						
Jan.-Mar.	17.18	22.37	5.19	41.23	6/55.22	6/13.99
Apr.-June	18.60	23.39	4.79	43.86	6/55.44	6/11.58
July-Sept.	16.94	23.04	6.10	43.42	57.17	13.75
Oct.-Dec.	12.93	19.52	6.59	35.71	6/51.33	6/15.62
Average	16.41	22.08	5.67	41.06	54.79	13.73
1956						
Jan.-Mar.	12.82	18.74	5.92	34.19	47.18	12.99
Apr.-June	16.42	21.31	4.89	39.13	51.62	12.49
July-Sept.	16.77	22.22	5.45	41.09	6/54.92	6/13.83
Oct.-Dec. 7/	16.12	21.49	5.37	38.66	54.11	15.45
Average 7/	15.53	20.94	5.41	38.27	51.96	13.69

1/ Quarterly data for 1949-54 are published in "Pork Marketing Margins and Costs," U. S. Dept. Agr. Misc. Pub. 711, Apr. 1956, tables 1 and 2.
2/ Average price of 200-220 pound barrows and gilts, Chicago.
3/ Wholesale value at Chicago of 71 pounds of pork and lard obtained from 100 pounds of live hog.
4/ Wholesale value of 100 pounds of major pork cuts at Chicago computed from Livestock Market News and National Provisioner price quotations of individual cuts.
5/ Calculated from average retail prices of major pork cuts in urban areas, published by Bur. of Labor Statistics.
6/ Revised.
7/ Preliminary.

Trends in retailer margins in 1956 were similar to those in 1955 (table 4). They widened appreciably during the first two quarters of 1955, dropped slightly in the third, but widened to $15.81 per 100 pounds carcass weight in the fourth quarter -- the highest quarterly average since 1948. These margins declined rather sharply from the fourth quarter of 1955 to the first quarter of 1956, after which they rose slightly but again declined sharply in the third quarter. The third quarter average of $12.07 was the lowest since early 1950 but the fourth quarter average rose to a new record of $16.45. Generally, retail price changes lag behind price changes at the wholesale and farm levels. This accounted for the sharp changes in the retailer margin in the second half of 1956.

In contrast with the pattern of change in margins, the farm value of Choice grade beef dropped steadily throughout 1955 (table 3). 4/ It continued to drop during the first 2 months of 1956, reaching a low point of 33.7 cents per retail pound in February. The farm value rose steadily in the second and third quarters, increasing sharply in the third. Although it declined steadily during the fourth quarter, the average then was 13 percent higher than a year earlier.

The farmer's share of the consumer's dollar spent for Choice grade beef followed the same pattern as the farm value in 1955 and 1956. The fourth quarter average in 1956 was 61 percent, 3 percentage points higher than in the same period for 1955.

The farm value of beef is determined by prices farmers receive for live animals. Live animal prices and wholesale and retail prices of meat are influenced by supply factors as well as consumption and demand. Large and increasing supplies of beef and other meats were mainly responsible for the reductions in farm values, wholesale values, and retail prices of Choice grade beef during 1955 and in the first quarter of 1956. An exceptionally large number of steers were carried over from late 1955 and marketed in early 1956. Increases in prices and farm values during the third quarter of 1956 reflected reduced supplies of fed cattle compared with 1955. Sharply increasing marketings of fed cattle plus heavy marketings of other cattle caused a downward trend in prices of beef cattle in the final quarter of 1956.

During 1955 prices received by farmers for Choice grade cattle dropped faster than wholesale values and retail prices of Choice grade beef, resulting in a widening of margins. The reversal of these price movements during the first three quarters of 1956 caused margins to decline.

Pork

Marketing margins for pork (excluding lard) averaged slightly lower in 1956 than in 1955, dropping 0.9 cent from the record annual average attained in 1955 (table 6). After increasing through the last three quarters of 1955, the margin dropped sharply to a low point of 20.3 cents per retail pound in May. Thereafter, the margin rose and, as in 1955, averaged higher in the second half of the year than in the first half. The relatively small decrease from 1955 to 1956 resulted from slight decreases in both packer and retailer margins.

4/ The farm value is the payment farmers receive for the quantity of live steer equivalent to 1 pound of Choice grade beef in the retail store. It is the price per pound received by farmers calculated on a retail-weight basis.

Table 6.- Pork: Retail price per pound, farm value, marketing margin, and farmer's share of retail price, by quarters, 1955-56

Period	Retail price	Net farm value 1/	Marketing margin 2/	Farmer's share
	Cents	Cents	Cents	Percent
1955				
Jan.-Mar.	49.5	26.6	22.9	54
Apr.-June	49.7	27.9	21.8	56
July-Sept.	51.4	26.5	24.9	52
Oct.-Dec.	46.1	20.3	25.8	44
Average	49.2	25.3	23.9	51
1956				
Jan.-Mar.	42.1	19.1	23.0	45
Apr.-June	46.3	24.8	21.5	54
July-Sept.	49.4	25.9	23.5	52
Oct.-Dec. 3/	48.9	25.0	23.9	51
Average 3/	46.7	23.7	23.0	51

1/ Gross farm falue of 1.82 pounds of live hog less allowance for lard and inedible byproducts.

2/ Difference between retail price and net farm value.

3/ Preliminary.

During 1955 and most of 1956 the pattern of change in packer margins was similar to that in retailer margins (fig. 2). Therefore, changes in these component margins were similar in most respects to changes in the overall farm-retail margin. 5/ They dropped in the second quarter of 1955, rose in the third and fourth quarters of that year; dropped again in the first and second quarters of 1956, and then turned upward in the third quarter. In the final quarter of 1956 the packer margin declined a little, but the retailer margin increased rather sharply (table 5).

Packer margins peaked in the October-December 1955 period at $6.59 per 100 pounds live weight. They declined to $4.89 in the second quarter of 1956, but rose in the third quarter. The fourth quarter average of $5.37 per 100 pounds live weight was $1.22 less than the average for the same period of 1955.

5/ The packer margin, specifically the live-to-wholesale margin for pork, is the difference between live weight prices of hogs per 100 pounds and the wholesale value of 47 pounds of major fresh and cured cuts which include hams, loins, picnics, butts, and spare ribs, about 9 pounds of minor edible products, such as neck bones, trimmings, fat, head meat, heart, and liver, and 15 pounds of lard. These quantities are approximate yields of wholesale products from 100 pounds of live hog.

The retailer margin, more specifically the wholesale-to-retail margin, is the difference between the average retail value of 100 pounds of fresh and cured pork products and the wholesale value of an equivalent quantity.

The October-December 1955 peak in retailer margins for pork was $15.62 per 100 pounds. The margins declined to $12.49 in the second quarter of 1956. By the fourth quarter, however, they had risen to an average of $15.45, slightly below the average for the same period in 1955.

The annual average retail price, wholesale value, and farm value of pork and pork products averaged slightly lower in 1956 than in 1955. These prices and values all tended to move in the same direction through this 2-year period. They all dropped sharply through the fall and winter of 1955 and then rose in the first half of 1956. During the second half, they remained relatively stable.

Marked increases in pork prices at all levels of the trade in the second quarter of 1956 resulted from earlier than normal seasonal reductions in hog slaughter. Hog slaughter normally drops to its lowest level in July or August. In 1956, however, hog slaughter dropped rapidly after March and reached its lowest level in June and July.

The higher levels in farm value, wholesale value, and in retail price last fall compared with the same period in 1955 reflected smaller marketings. The spring pig crop for 1956 was 8 percent less than a year ago. Since almost all this reduction in farrowing was in the latter part of the spring season, the reduction did not affect the monthly rate of hog slaughter until November. Hog slaughter for the months of November and December 1956 was about 14 percent less than for the same period a year earlier. To a large extent, this reduction in hog slaughter and a decrease of 37 million pounds in carryover of pork in cold storage November 1 accounted for the higher levels in the farm value, wholesale value, and retail price in the fourth quarter of 1956 than in the same period of 1955. Production of pork was about 3 percent greater in 1956 than in 1955.

The farmer's share of the consumer's dollar spent for pork products was 51 percent in 1956, the same as in 1955, and 10 percentage points less than that for 1954. The farmer's share generally has been larger for beef than for pork. Marketing margins per pound usually have been about the same for both, but the farm value generally has been higher for beef than for pork, particularly in recent years. These relationships between marketing margins and farm values mainly account for differences in the farmer's share.